

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2002 through the Fourth Quarter of 2005

The outlook for the state's economy has been scaled back somewhat compared to the previous forecast, with the major differences occurring this year and next. In the July 2002 *Idaho Economic Forecast*, nonfarm employment growth was expected to be flat in 2002. This was lowered in the current forecast. Specifically, the October 2002 *Idaho Economic Forecast* shows employment is actually expected to experience a small (1.0%) decline in 2002. This change results from new historical data that suggest the previous forecast was a bit optimistic. Last July it was predicted Idaho nonfarm employment would grow to 566,695 by the second quarter of 2002. However, the new historical data show it was 560,285—a difference of nearly 6,700 jobs.

Interestingly, a review of Idaho personal income reveals a different picture. Specifically, Idaho personal income was understated in the July 2002 forecast. According to recent estimates published by the U.S. Department of Commerce in October 2002, Idaho nominal personal income in the first quarter of 2002 was \$33.6 billion, which is about \$0.4 billion dollars more than had been previously reported. The bulk of this change reflects revisions to Idaho dividend, interest, and rent income and government transfers to individuals.

The revision noted above has lowered the starting point for the Idaho nonfarm employment forecast. However, this is not the only factor affecting its outlook. This measure will feel the pinch of the slower growing U.S. economy. Last July, DRI*WEFA projected real GDP would increase 3.5% in 2003, 3.7% in 2004, and 3.1% in 2005. In the current forecast real GDP rises 3.0% in 2003, 4.0% in 2004, and 3.3% in 2005. The net result is Idaho nonfarm employment is expected to be down by about 5,200 in 2003 compared to the July 2002 forecast.

In 2004 and 2005, the growth pace for Idaho nonfarm employment should accelerate slightly. Specifically, Idaho nonfarm employment is expected to grow 2.1% in 2004 and 2.4% in 2005. This is marginally faster than the July 2002 job growth rates of 1.9% in 2004 and 2.2% in 2005. As a result, the job gap between the October and July forecasts shrinks to 3,403 by 2005.

Idaho nominal personal income is expected to rise 5.1% in both 2003 and 2004 and 5.5% in 2005. Previously, this measure was projected to increase 5.4% in 2003 and 5.9% in 2004 and 2005. As is the case with Idaho nonfarm employment, this closes the gap between the Idaho nominal personal income forecasts. However, there is difference worth noting. The nonfarm employment converges from below the previous forecast while the personal income closes in from above the previous projection.

SELECTED IDAHO ECONOMIC INDICATORS

**Idaho Electrical & Nonelectrical
Employment**



Electrical and Nonelectrical Machinery:

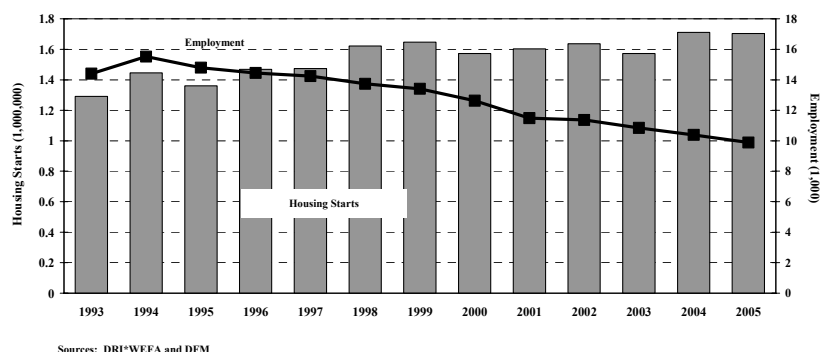
The outlook for the Gem State's largest manufacturing sector, electrical and nonelectrical machinery, has been lowered compared to the previous projection. In the July 2002 *Idaho Economic Forecast*, this sector's employment was expected to end its recent slide in the second quarter of 2002 and continue to grow over the forecast horizon. In this revised forecast, electrical and nonelectrical employment does not advance until the third quarter of 2002 and grows slower in the near term. There are two main reasons for this. Newly released

historical data show DFM's previous prediction for the second quarter was optimistic. Specifically, this sector's employment was expected to grow at a modest 0.8% annual rate in 2002's second quarter. Instead, it actually declined at a 0.5% annual rate. Unfortunately, this was not the biggest setback. Jabil Circuit announced it was closing its two-year old Meridian, Idaho manufacturing plant. This move will idle an estimated 500 high-tech employees by the end of the year. The closure is another setback during one of the high-tech sector's most challenging periods. The ex-Jabil Circuit employees will join the ranks of the approximately 4,000 other Idaho high-tech employees that have lost jobs during the current downturn. In order to understand how this has happened, it is helpful to view the recent history of the high-tech sector. During the second half of the 1990s, U.S. real business investment was an engine of economic growth that grew over 10% annually. High-tech investment did particularly well during this period. Fueled by the widespread use of the World Wide Web, the Telecommunications Act of 1996, and Y2K, combined real spending on software, computers, and communications equipment advanced over 25% per year. In response to this strong demand, the output of office and computer equipment rose nearly 40% per year from 1995 to 2000 and the output of electronic components grew about 50% per year. Idaho's high-tech sector rode the crest of this wave, and its employment growth averaged 6.3% per year from 1995 to 2000. The good times halted in 2001. In that year, real spending on equipment and software declined 4.4%. This put the brakes on office and computer equipment output growth, causing it to slow to just 2.3% in 2001. Electronic component production actually contracted 4.4% last year. Idaho machinery employment shrank 0.8%. It is expected to decline 9.2% this year, then grow 2.6% in 2003, 8.1% in 2004, and 8.6% in 2005.

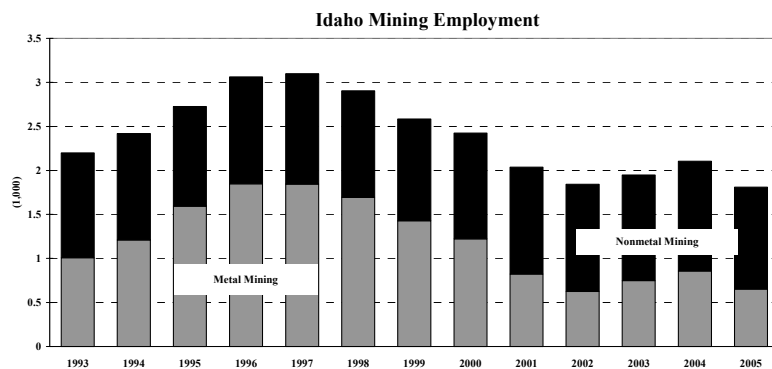
Lumber and Wood Products:

Idaho lumber and wood products employment is expected to continue to shrink over the forecast period despite a relatively strong national housing sector. This is because supply issues and not demand factors will dominate Idaho's lumber and wood products industry's fortunes. Some of these problems have been going on for a while. Like most of the region, the

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



health of the Gem State's industry depends on an adequate supply of public timber. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. The toll of this dwindling supply of logs has been high. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. Unfortunately, mill closings have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Ironically, this sector also suffers from low prices because of the glut of wood products on the market. This helps explain why prices were so soft despite demand being so strong recently. The reasons for the excess supply include the strong U.S. dollar, Canadian competition, and the collapse of exports, which have directed more products into the North American market. The good news is the excess supply will eventually disappear. But the bad news is it will result from the anticipated closure of older and less-efficient mills. Idaho lumber and wood products employment is forecast to go from 11,489 in 2001 to 9,882 in 2005.



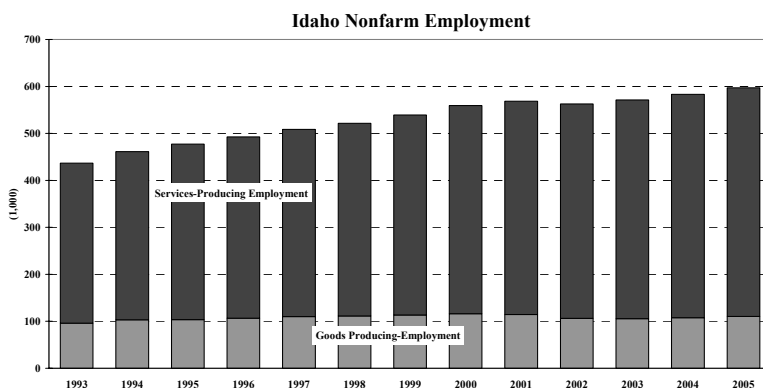
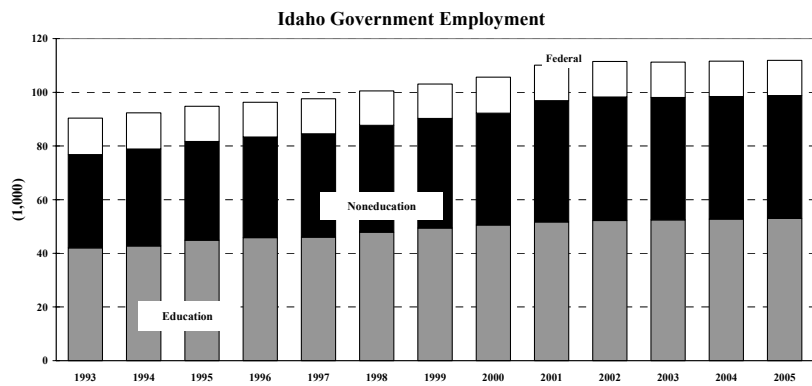
Mining and Chemicals: Like other resource-based sectors, Idaho's mining and chemical industries have struggled recently. Unfortunately, they are not expected to turn around in the near future. The state's mining sector suffered its fourth straight year of employment declines in 2001. After peaking at about 3,100 jobs in 1997 it had just over 2,000 jobs in 2001. Most of the job losses

were in the metal mining component, which shed over 1,000 jobs from 1997 to 2001. The state's chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. The approximately 300 remaining employees and several hundred construction workers lost their jobs when plant permanently closed its doors. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium.

Federal, State, and Local Governments: All government sectors in Idaho are projected to experience limited employment growth over the forecast period. A major factor influencing this outlook is the anticipated slowing of Idaho population growth. This connection is well documented by the historical record. To see this, one needs look no further than the previous decade. Idaho's population jumped 28.5% from 1990 to 2000. Historically, huge swings in the Gem State's population are tied to migration. Bolstered by the state's booming economy, newcomers flocked to Idaho. This in-migration wave accounted for two-thirds of the increase in total population. Faced with growing pains that accompanied a fast growing state, all levels of government scrambled to ease the strain on the state's

infrastructure. Idaho state and local government employment advanced over 3.5% annually during the first half of the 1990s in response to rapidly expanding needs. As these needs are met because of the anticipated slowing population growth, the rate of job expansion will slow. But this is not the only factor limiting employment growth. Local government budget caps will also limit employment growth. The

tight state budget picture will also limit government payrolls. Like most states, Idaho is facing budget shortfalls. As a result of these factors, Idaho state and local government payrolls are expected to advance by no more than one-half percent annually through 2005. The fate of federal government employment in Idaho is determined by decisions made in Washington, D.C. While federal spending may be boosted, it remains to be seen how it will benefit Idaho. Increased spending on the military and homeland defense should have a limited impact locally because the U.S. military has a relatively small presence in this state. Idaho federal government employment is anticipated to grow slightly from 13,285 in 2001 to 13,163 in 2005.

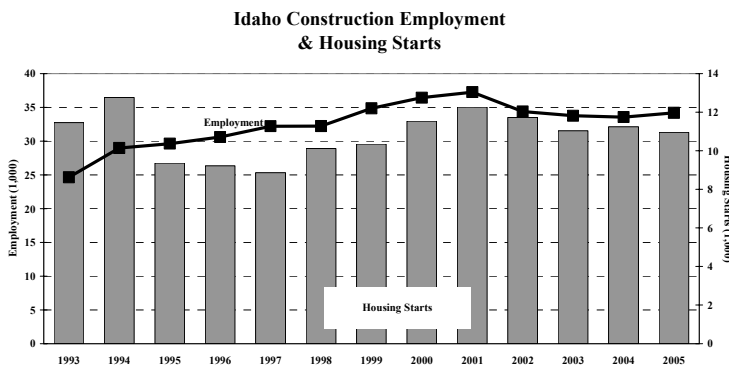


Services-Producing Industries:

Most of the state's economic growth will continue to come from the services sector. This, Idaho's largest and most diverse sector, is anticipated to add jobs over the forecast period. In comparison, the goods-producing sector is expected to decline both this year and next before posting mild gains. Traditionally, the goods-producing sector determined the short-term

fortunes of the services sector. For example, local implement dealers suffered if farmers fell on hard times. Automobile dealerships can trace their most prosperous times to when high-tech manufacturers handed out bonus checks to their employees. Of course, the roles of the goods-producing and services-producing sectors sometimes overlap. For example, construction is classified as a goods-producing activity, but clearly instead being a primary driver of economic activity, its performance is largely driven by activity in other sectors. As the economy evolves, services-based industries are becoming less dependent on other industries. Instead of being driven by local economic activity, they have been drivers. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. These companies have flourished in Idaho because new technology frees companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, Dell Computer recently opened a new service center in Twin Falls, Idaho, although the company is based in Texas. In another example, landlocked Boise is the home to a

Japanese shipping company's scheduling operations. Although the connection between goods- and services-producing sectors have blurred, they have not been severed. In fact, in some cases they have even been reinforced. For example, some manufacturers employ temporary workers employees to meet peak production. As a result, their numbers wax and wane with the manufacturers' business cycle. These workers are often employed by employment services, so they are classified as service employees rather than manufacturing employees. Another trend affecting service employment is the increasing presence of national "big-box" merchandisers in the Gem state. During the 1990s, many Idaho communities' populations achieved the critical mass that attracted these companies. Recent openings by such industry giants as Fred Meyer, Home Depot, and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 0.6% in 2002, 2.0% in 2003, 2.1% in 2004, and 2.3% in 2005.



Construction: The employment outlook for the state's construction sector has changed little from the previous forecast. Namely, the number of jobs is expected to contract from 2002 to 2004 before experiencing a mild rebound in 2005. The construction sector had been an important source of jobs during Idaho's record expansion, so its absence over the next few years will be felt. From 1988 to 2001,

construction employment advanced an average of 7.5% per year, which made it one of the state's fastest growing sectors. At this pace, the level of employment nearly tripled from just fewer than 14,000 to 37,537. This stellar growth was largely fueled by the strong demand for housing that was caused by strong in-migration into the Gem State. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. Fortunately, because Idaho builders were in catch-up mode during most of this period, the state never developed a significant housing inventory surplus. As a result, it did not suffer a housing bust when demand for housing leveled off. Nonresidential construction also deserves credit for this sector's strong showing. Projects such as the Boise Towne Square Mall and the rebuilding of downtown Boise's infrastructure helped boost employment during the early years of the boom. It also provided an important cushion when housing starts dropped in 1995. Several factors point to challenges over the next few years. These include slower Idaho real personal income growth, slower Idaho population growth, and rising mortgage interest rates. Idaho housing starts are expected fall from 12,269 units in 2001 to 10,961 units in 2005. Idaho construction employment is forecast go from 37,267 in 2002 to 34,193 in 2005.